Weekly Economic Review

Lower prices pull down energy exports

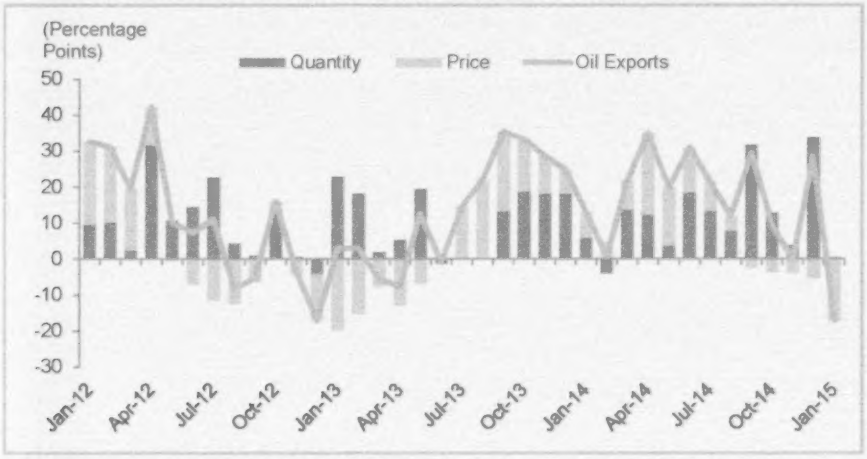
Merchandise Exports

Energy responsible for the decline

Alberta's exports declined 16% year-over-year (y/y) in January 2015 , the largest decrease since November 2009. A 24% drop in energy exports accounted for the entire decline, as both oil and gas prices have fallen substantially since January 2014. Export volumes of crude oil increased by 0.5% y/y, while the value of oil exports fell 17% (Chart 1). Abnormally low temperatures in January 2014 throughout much of North America helped increase demand and prices for natural gas. This was not the case in January 2015 as the value of natural gas exports fell 48% y/y. Non-energy exports were up 13% y/y, led by consumer goods, industrial machinery and equipment, and plastics and industrial chemicals.

Chart 1: Prices weigh on the value of oil exports

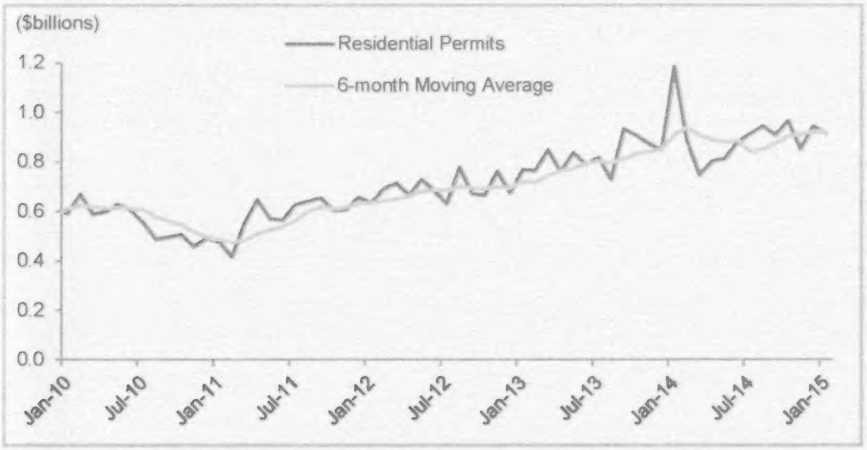
Contribution to year-over-year change in the value of Alberta oil exports



Source: Statistics Canada, Treasury Board and Finance calculations

Chart 2: Residential permit values have maintained strength

Alberta residential permit values



Source: Statistics Canada

Residential Investment

Construction activity on the rise

Residential investment in Alberta totaled $4.6 billion in the fourth quarter, up 6.8 % y/y. This was the result of a whopping 19% y/y increase in investment in new dwellings. Renovations were down 15% from the fourth quarter of 2013 when flood-related reconstruction boosted renovation activity, an effect that lasted until the second quarter of 2014. Overall in 2014, total residential investment in Alberta was 12% higher than in 2013. Investment in new dwellings, which accounts for 61% of residential investment, increased 15.2%, while renovations rose 5.9%.

Building Permits

Non-residential permits soften

Building permits issued by Alberta municipalities in January totaled $1.3 billion, 27% lower than January 2014. Non-residential permits fell by 36% y/y and residential permits fell 23%. The year-over-year decline in residential permits stems from the fact that values spiked to an all-time high in January 2014. The longer term trend in residential permits remains relatively strong (Chart 2). Both of Alberta's major centres saw permit values decline from last year, with permits down 34% in Calgary and 9.2% in Edmonton.

Municipalities across the country issued $6.1 billion-worth of building permits, down 13.6% y/y. There were year-over-year declines in all provinces except for Prince Edward Island, Nova Scotia and Saskatchewan permits falling the most.

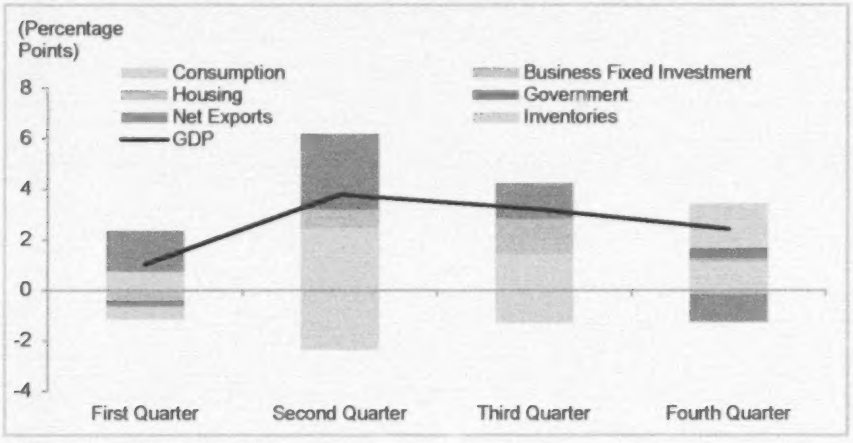
Industrial Product and Raw Materials Price Indexes

Energy prices drive down index

The industrial product price index (IPPI) fell 2.2% y/y in January, due to energy prices declining 29%. Excluding energy, the IPPI increased 3.4% y/y. The prices of tobacco, meat, fish, and dairy, and motor vehicles, all rose substantially. Industrial input costs, as measured by the raw materials price index, fell 22%, also because of falling oil prices. Farm product prices were all up substantially with year-over-year increases of 40% for live animals, 18% for wheat and 11% for canola.

Chart 3: Inventories and consumption add to GDP

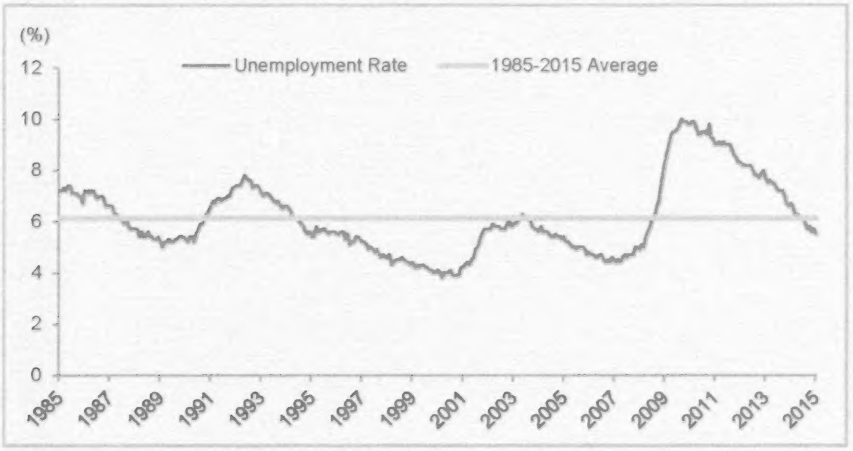
Contribution to quarterly growth of Canadian real GDP in 2014 (annual rate)



Source: Statistics Canada

Chart 4: US Labour market is returning to normal

Historical unemployment rate against the January 2015 value



Source: Bureau of Labor Statistics

Canadian Real GDP

Ending 2014 on a high note

Canadian real GDP increased at an annual rate of 2.4% in the fourth quarter, reinforcing the strong growth posted over the preceding two quarters. A buildup of inventories, mostly by wholesalers and retailers, was the biggest contributor to quarterly growth adding 1.8 percentage points, followed by household consumption, which rose 2.0% (Chart 3). This was partly offset by net exports, which subtracted 1.1 percentage points from growth, as imports rose and exports fell. Non-residential investment declined 2.3% in the fourth quarter, and is largely unchanged since 2012. After rising sharply in the second and third quarters, residential investment grew 1.4% in the fourth. Canada's annual real GDP in 2014 was 2.5% higher than in 2013, helped by exports, which rose 5.2%.

US Employment Situation

On the right track

The US labour market continues to improve, adding 295,000 jobs in February. Almost all of these new jobs were in the private sector. The unemployment rate also improved, falling 0.1 percentage points to 5.5%, close to the historic averages (Chart 4). The share of the population either working or looking for work (the labour force participation rate) was 62.8% in January and has been little changed since April 2014. Broader indicators are also getting better: the time the average person spends unemployed has fallen, as has the number of people who have been out of work for more than 6 months.

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Please see the *Alberta Economy- Indicators at a Glance* for a snapshot of Alberta indicators.